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ABSTRACT

In preparation for the 1987 demise of the current community college funding mechanism in California, this discussion paper reviews the current fiscal situation in the state and considers the needs that should be addressed in the finance mechanism that would become effective in July 1987. Background information is presented on the history of the California community college system. A discussion of community college finance focuses on the three primary sources of funding: student enrollment fees (4.5% of the total general appportionment funds in 1984-85), local property taxes (27.9%), and state appropriations (67.6%). A history of changes in community college funding is presented, including a chronology of the legislation determining funding mechanisms since 1907. Following a discussion of the principles of community college finance adopted by the Board of Governors in December 1982, the paper examines current financial problems and possible solutions. The Board of Governors' finance principles for community colleges are appended. (LAL)

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Board of Governors of the
California Community Colleges
September 12-13, 1985

Item 5

Title: Principles for Community College Finance: Discussion Paper

Staff Presentation: Joseph P. Keating
Assistant Chancellor
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Summary

The current community college finance mechanism, enacted in 1983 (SB 851), will sunset effective July 1, 1987. It is therefore necessary to review the current fiscal situation and to consider the needs that should be addressed in the finance mechanism that would become effective on July 1, 1987.

This item represents the initial staff presentation for consideration and discussion by the Budget, Finance, and Legislation Committee of the Board of Governors. After further field and Board review, the finance principles in this item will be brought back for additional Board discussion in October, with action on the principles scheduled for December. The adopted principles will serve as the basis for drafting Board-sponsored legislation on community college finance, to be introduced early in 1986.

Background

The California community college system began in the early 1900's with the need for locally accessible courses for high school graduates.

Postgraduate courses initially offered at high schools were primarily academic. In 1907, legislation recognized such courses in the high schools and in 1921 separate junior college districts were authorized. Vocational programs began to develop in the junior college program during the late 1930s and early 1940s. Student services also began during that time. Over this period, colleges slowly began to form as separate entities from high schools. The post-World War II years saw a growth in the numbers of older students who were returning for more education as well as the younger students who continued on directly from high school. During this period, the "open door" policy began, providing equal opportunity for adults as well as those students who came directly after high school graduation. Efforts were subsequently made to expand enrollments and attendance by the disadvantaged as well as older adults. By 1960 the part-time adult student made up about two-thirds of the community college enrollment.

The Legislature confirmed the then junior colleges as part of California's higher educational system in 1961 by legislation that adopted the Master Plan for Higher Education. The Plan identified transfer, vocational and technical fields leading to employment, liberal arts courses and community services as functions appropriate to the junior colleges. The Plan also limited eligibility for enrollment in the lower division of the four-year public segments so that the lower two-thirds of high school graduates could only attend a junior college.

Until 1967, the community college program remained as an adjunct to the elementary and secondary educational system, under the leadership and policy direction of the Department of Education and the Board of Education. In 1967, legislation authored by Senator Walter Stiern created the Board of Governors for the California Junior Colleges and shortly thereafter the Chancellor's Office was formed.

The community college system has continued to grow from that time as the public needs have changed and as statewide policy has evolved. The emphasis on various program elements has changed to reflect the special needs of the communities that each community college serves. However, the major elements of the mission, including academic, vocational, and community education have survived. The community colleges provide the greatest opportunity for access to higher education for the greatest number and most diverse of students. Nevertheless, the fiscal limitations of the last several years have caused policy change. The most significant factor that has influenced policy change in recent years has been the sudden change in funding stability with the passage of Proposition 13 in 1978. This initiative and the legislation that followed resulted in a shift of funding toward greater dependence on the State and lesser dependence on local funding sources and the virtual elimination of the ability of the local governing boards to increase local tax resources to serve the needs. The State's own fiscal limitations and the growing need for additional funds in other State funded programs placed greater pressure on community college programs and caused significant changes in the State's commitment to community college programs (i.e., Student Enrollment Fees).

Community College Finance

California community colleges are funded from three primary sources, including: student enrollment fees (4.5% of the total general apportionment funds in 1984-85); local property taxes (27.9%); and State appropriations (67.6%). Additional funds, equal to approximately 4% of the general apportionment funds, are derived by the colleges from a variety of sources, including federal funds, local permissive fees, special categorical funds and private contributions. In the fiscal year just preceding Proposition 13, the State contributed only 38% of the general apportionment funding; the remaining 62% was provided from local property taxes. There were no funds derived from student enrollment fees. Following Proposition 13, in 1979-80, the State's contribution increased to 78% as local property tax share dropped to 22%. Since that time, property tax assessments have climbed by an average of 12% per year and student enrollment fees have been instituted. The State's real dollar contribution has grown by an average of only 1.5% per year and the proportion of revenues contributed by the State has slipped from 78% to 67%. Overall funding has increased by an average annual amount of only 4.5% since 1977-78, while buying power per average daily attendance (ADA) has declined by over 11%. Had it not been for a statewide reduction of almost 10% in ADA, the buying power reduction would have exceeded 20%. The community college system has not done well since its dependence has shifted from local to state resources.

State funding for community colleges has been provided primarily through general apportionment aid. Categorical funding has been limited primarily to special student needs programs where it has been necessary to target additional resources, such as the Extended Opportunity Program (EOPS) and the Disabled Student Program (HSPS). As general apportionment funding has been limited and buying power has diminished, backlogs of need have arisen, necessitating categorical aid for such additional need as deferred maintenance and instructional equipment. In addition, the need for greater accountability and greater effectiveness with limited resources has demonstrated the need for improved student assessment and counseling ("matriculation") and for renewal and upgrading of staff through staff development.

State general apportionment funding is determined through legislatively adopted statutory provisions. These provisions incorporate the local property taxes and student enrollment fees of each community college district in a formula for purposes of calculating the amount of money that each district will receive from the State. For purposes of calculating the amount of State funding for a district, the State establishes a limit ("revenue limit") on the district's allowable funding per ADA and a limit (ADA cap) on the number of ADA for which the district is eligible for funds.

The amount of State general apportionment assistance varies widely among the districts depending on their revenue limit, their ADA cap, and on their local property taxes and student enrollment fee revenues. For example, the State provides no general apportionment assistance to West Kern Community College District, where property tax proceeds are high due to the high value of oil rich lands, and provides 90% in the San Francisco Community College District, where the educational needs are high and the property tax proceeds are relatively low per student. The State's contribution is automatically reduced as

property tax proceeds and enrollment fee receipts increase. The State's contribution goes down significantly as enrollments decline. Property tax proceeds are not affected by enrollments and student fee revenues change marginally. The State's funding mechanism has evolved over the years to one that protects the State against the possibility of large increases in the State's fiscal obligation and, at the same time, provides the opportunity for significant State savings as enrollments decline or property values and the resulting taxes go up. Property tax proceeds are growing at twice the rate of inflation, thus providing an annual windfall to the State by reducing its funding obligation. The ratio between State funding and local property tax funding will continue to change toward a higher participation of local funds and a lower obligation of State funds.

The basic statutory mechanism has been modified with nine significant changes since 1973. This has contributed significantly to the financial instability of the system and to district uncertainty and their inability to plan. The present funding mechanism, known as the "SB 851 Mechanism" (Article 1 of Chapter 5, commencing with Section 84700 of the Education Code), is due to expire on July 1, 1987. It is therefore necessary to once again consider the needs and to re-enact, modify, or develop a new community college funding mechanism.

History of Community College Finance

The history of community college finance is marked by several changes. These changes have produced incentives and disincentives that have resulted in change to the community college program. The last several years have produced numerous changes to the State's finance mechanism, each change intended to respond to particular problems that had arisen and some changes creating incentives or disincentives that have caused further problems. The many changes and the changing availability of public tax resources during the last decade have left State and local leaders with questions as to the mission and governance of the colleges and a high level of uncertainty as to future funding levels. Continuous change in the funding mechanism has lessened the predictability of revenues and has led to budgetary and program instability.

A brief history of community college funding follows.

1907-1929: Initially, the community colleges developed without a specific funding source. Eligibility for ADA generated by high school graduates in post-graduate courses was questioned and in 1915 the State Attorney General ruled that such ADA could not be counted toward the receipt of State funds. Federal mineral revenues allocated by the State were used as the primary support for programs during the 1920s.

1929-1947: In 1929, State apportionments of $30 per ADA were set for the support of the junior college program.

1947: In 1947, the first major finance mechanism was created for the junior colleges and was based on a "foundation" program concept. This mechanism, which was patterned after the K-12 funding system,

provided State support of $90 per ADA, and when combined with local property taxes, assured enough funds for the basic elements of a quality education.

Districts were free to augment the basic funding level through local property tax revenues. Like the K-12 system, there was no limit on the number of ADA that the State would fund. This, and the ability of community college districts to raise additional local revenues through voter-approved property tax rate adjustments, was sufficient to allow for significant program growth. This was particularly true in those areas of the State where property values were high and low tax rates could generate relatively large amounts of revenue. The variations in property values and tax proceeds among the districts created program inequities and eventually led to the need for change.

1973: Funding inequities throughout the school system, particularly among the K-12 school districts, led to a court finding of inequity (Serrano v. Priest) and a court-directed move toward equalization of funding in the K-12 funding system. Although the community college system was not a part of court-directed equalization, inequities did exist, and legislative action was directed toward equity in community college finance as well as for K-12 funding.

Senate Bill 6, modeled after the modified K-12 funding system, was passed in 1973. Its primary feature was to establish a limit on the amount of revenue ("revenue limit") that could support each ADA. Local property tax contributions were fixed and the State would augment local revenues, above previous foundation levels, for those districts with lower property tax receipts (lower assessed value) thereby providing for greater equity of financial support. With a fixed property tax level and no limit on ADA, the State became responsible for full funding for increases in ADA. This created an incentive for ADA growth.

1975: Rapid growth did occur and in 1975 the Legislature found it necessary to establish a percentage limit on growth ("growth cap"). Districts would not be eligible for additional State revenues for any ADA generated beyond a 5% growth cap. This was the State's first attempt to limit the size of the community college program and by some accounts was counter to the State's "open door" policy. Unfunded ADA generated above the funding cap resulted in a reduction of average revenue levels per ADA in those growth districts, and in that sense, was counter to the State's attempts at equalization.

1976: In a further attempt to reduce the incentive for growth, the Legislature enacted SB 1641, which included a tax rate control and removed the promise to fully fund increased ADA from state apportionments. However, this was a period of rapidly escalating property tax assessed value increases. The increased property tax

revenue more than offset limits in State apportionments and community college ADA continued to grow. Most districts kept their property tax rates stable during this period but continued to grow rapidly. A few, however, reduced tax rates which would have a long-term negative impact on future revenue levels. Property taxes at this time represented approximately 60% of community college revenues per ADA.

1978: The passage of Proposition 13 drastically reduced the rate that could be applied to property taxes, virtually eliminating local taxing authority. Local revenues were cut by over 55% (down from $750 million to $340 million in one year). In response to this fiscal dilemma, the State found it necessary to provide a greater share of the overall funding for the community colleges. The K-12 school districts faced a parallel reduction in local revenues.

Senate Bill 154 was enacted in response to the funding needs and to provide an increase in the State's contribution. However, full funding could not be provided and the colleges faced a net reduction of 7% from the previous funding levels. A "block grant" approach to funding was adopted as an emergency measure and the colleges were allowed to reduce ADA without further reductions in revenues. The "block grant" method proved to be disequalizing in terms of revenue per ADA, as community college districts reacted quite differently to their authority to reduce ADA. Those districts that reduced ADA became relatively high revenue districts; those that did not reduce ADA became relatively low revenue districts. After the "block grant" year districts that had maintained previous levels of ADA were locked into the higher ADA levels, and were forced to continue that level of ADA in subsequent years or suffer a loss of State revenues as the ADA declined.

1979: Following the emergency block grant approach to funding, AB 8 was enacted. This act established a concept of the marginal rate for changes in ADA and made an attempt to equalize revenues per pupil through an equalization factor. The marginal funding concept replaced full funding for increased numbers of ADA. Based on the assumption that district costs increase marginally as ADA increases occur, increased numbers of ADA would now be funded at a marginal rate of two-thirds, rather than at the average revenue levels per ADA. It was assumed that the fiscal incentive for growth would be lessened. Nevertheless, rapidly increasing property values and local revenues offset the dampening effects of the marginal funding rates and ADA continued to grow. The equalization factor was used to adjust the level of inflation funding (COLA) that each district would receive based on their relative revenues per ADA. The equalization factor proved to be so punitive to some high revenue districts that special district factors became necessary to offset its effects.

Growth limits were not a part of this funding mechanism and actual growth occurred in the following year beyond the levels that could be funded out of the limited appropriation of State funds. A deficit resulted in 1980-81 and, although the marginal funding rate was set at two-thirds (67%) of the State's average revenues per ADA, only 46% of the average revenue level could be provided for each additional ADA generated. In addition, a 1% deficit was imposed against each district's base revenues. This further disequalized funding to some extent and those districts that grew had to maintain ADA in subsequent years or face the loss of revenue at the two-thirds marginal rate.

This funding law contained a limited life provision ("sunset") of two years and the short-term cycle for review and change became the rule. This continuous review, as well as the drastic changes brought about by Proposition 13, contributed to funding uncertainties and instability in the community college system.

1981: The Legislature enacted new law (AB 1626), continuing many of the features of AB 8 but re-establishing growth limits ("ADA caps") for each district. The new growth limits were tighter than those previously adopted in 1975. Growth would be allowed only for additional ADA sufficient to maintain community college programs in proportion to the change in the adult population (2.1% that year).

In addition, the State differentiated funding by establishing an incremental rate of $1,100 for noncredit ADA (considered comparable to the Adult Ed programs in the K-12 system).

1982: Although the funding mechanism was intended to be effective for two years, sunsetting in 1983, the State's own fiscal problems caused the Legislature to look for reductions to community college funding. For the 1982-83 fiscal year the State adopted a Budget Act which provided no funds for growth and directed $30 million in program reductions in "recreational, avocational, and personal development" courses. Although community college districts could continue to provide fee-supported community service courses, this was a significant change in the ability of local governing boards to determine program offerings.

1983: The statutory mechanism, which was enacted in 1981, was due to sunset on July 1, 1983. Senate Bill 851, enacted by the Legislature and signed by the Governor, replaced it. After an extended effort to resolve problems of funding instability and inequity, a proposal was made by a coalition of representatives of virtually every community college district and every community college interest group in the form of SB 851. This proposal addressed each of the principles of community college finance adopted by the community college Board of Governors in December 1982 (See Attachment A).

The new finance mechanism adopted through SB 851:

1. Provided a stable funding base for each district based on its prior year funding.

2. Established a nationally recognized measure of change in governmental costs as an index for providing additional funds to meet the costs of inflation.

3. Eliminated the punitive equalization adjustment factor that was applied to inflationary funding.

4. Provided substantial equalization for districts with the lowest revenue levels per ADA and a mechanism for delivering additional funds toward greater equalization over time.

5. Removed noncredit courses (differentiating credit and noncredit courses based on cost differences) from the calculation for determining the distribution of equalization funds.

6. Continued the projection of change in adult population as the means of providing State funds for enrollment increases. The legislation also contained legislative intent language which was intended to provide, through the annual Budget Act, for additional increases in enrollment based on statewide needs.

7. Changed from the current to the subsequent year any adjustments in revenues that would be made for reductions in ADA.

8. Provided a new adjustment formula to recognize the need of the small community college districts for higher levels of revenues to meet their higher average costs.

9. Required a drop fee of $10, not to exceed $20, for students who drop courses after the first two weeks of a semester.

10. Called for a differentiated funding study as a means of evaluating the potential of an alternative allocation system.

This funding mechanism also contained sunset provisions, necessitating its re-enactment, its modification, or the enactment of a new mechanism by July 1, 1987.

Although the SB 851 mechanism was enacted with almost unanimous consent (36-0 in the Senate and 75-1 in the Assembly), full funding did not follow. A new issue, centered on a philosophy that students should contribute a portion of the cost of community college education (that is, above the level of then existing permissive fees, textbooks, supplies, transportation, and subsistence costs), caused an impasse in the 1983-84 budget resulting in no funding for inflation, equalization or growth, and a reduction of $108 million from the previous year's funding level. This issue

magnified funding instability and seriously affected the community college program. An extraordinary session of the Legislature was necessary to enact compromise legislation in January 1984.

The Differential Funding study was completed and received general approval of the Board of Governors on December 7, 1984. The report supported the concept of differential funding but cautioned against rapid development by identifying limitations of current statewide data. The report contained the following statement:

> "As a result of efforts to reconcile the data and the field visits, it was concluded that current data, obtained regularly from the community college districts, are adequate for current funding procedures; that in the composite, attendance and budget and expenditure data are accurate; and that the data are adequate to provide a basic framework for differential funding but not for a fully developed and implemented system. At a lower level of detail (subdisciplines within instructional program activities) inconsistencies occur and full implementation of differential funding will require significant changes and improvements in the data and information system."

In an effort to move toward the development of a differential funding system, the Board of Governors sponsored legislation (AB 2177 of the current session) to obtain the funding necessary to develop and collect the appropriate data.

1984:

Assembly Bill 1 of the Second Extraordinary Session (AB 1XX) was enacted to resolve the conflict over student fees and to restore base funding for the community colleges for the 1983-84 fiscal year. A companion bill was enacted during the regular session of the Legislature and, becoming effective with the enactment of AB 1XX, provided the funds necessary to restore community college base funding.

AB 1XX:

1. Enacted a student enrollment fee of up to $50 per semester ($5 per unit up to 6 units and $50 for each student taking 6 or more units).

2. Appropriated $15 million to provide financial assistance to students who could not afford the enrollment fee.

3. Eliminated or modified several permissive fees (including fees for health services, transportation, supplies, etc.).

4. Restored funding levels to the community colleges to bring them back up to the previous year's levels.

5. Provided authority for the community colleges to restore in 1984-85 any ADA lost in 1983-84 without reduction in revenues if the ADA were restored.

The Budget Act of 1984 was subsequently enacted, thus providing sufficient funds for the community colleges to restore their enrollment levels back to the 1982-83 level. It also established a funding base in 1984-85 sufficiently high to recapture the inflationary funding level that was not funded in 1983-84. The Budget Act, after action by the Governor, provided only 4% of the 6.1% statutorily authorized amount for inflation. Even though the authority to restore ADA levels was given, few districts were able to recover ADA losses and, in fact, many districts suffered further reductions. Some districts experienced reductions of 20 to 25% over the two-year period as the spiraling effect of reduced ADA, reduced revenues, and further reductions of ADA began.

In addition to the initiation of the student enrollment fees and the funding instability that accompanied the impasse over the enactment of the fee, a number of other factors have contributed to the decline in ADA. These factors include: an improvement in the economy, a decline in high school graduates, a change in entrance requirements of the four-year public higher education institutions, an increase in the rate of high school students going to UC and CSU and community college reforms. Community college reforms included such changes as the tougher grading standards, new graduation requirements, increases in required courses for graduation, implementation of assessment testing and course placement programs in some colleges, and tighter course prerequisites.

Principles of Community College Finance

The Board of Governors of the California Community Colleges adopted principles of community college finance in December 1982. These principles, along with examples of potential statutory provisions, served as the basis for the development of the 1983 funding mechanism (SB 851). The principles (Attachment A) dealt with the basic fundamentals of funding stability, equity of allocations of State resources, and local district discretion and flexibility to deal with local needs and conditions. The principles also dealt with the need to maintain quality programs by providing sufficient funds to meet inflationary costs, the need to maintain service levels consistent with the changes in the adult population, and the need to provide for additional student service levels to serve identified statewide objectives. The principles also recognized the need for appropriate timing for the allocation of State funds and the disparities of size and cost differences due to programmatic differences.

These principles were effective guides for the development of a finance mechanism. The principles continue to be relevant to the needs of the community colleges today. However, the problems that have developed in the last few years and the problems that have risen from a decade of decline in community

college buying power may be pointing to the need for greater refinements in the funding mechanism to address the need for stability and greater responsiveness of the system.

Current Problems and Potential Change

Decline in ADA. Significant enrollment and ADA decline in many of the community college districts in a short period and the resulting decline in revenues have pointed out several problems:

a. The community college districts find it impossible to reduce expenditures in areas such as plant operation and maintenance, and in faculty where reduced enrollments necessitate lower class sizes rather than fewer class offerings in order to preserve curriculum. Funding needs in such areas as student services, as well as operations and maintenance, are not directly related to ADA count and are not directly responsive to marginal changes in that count. Districts find it extremely difficult to reduce expenditure budgets in the same time frame that revenues decline from reduced enrollment and ADA.

   Some potential solutions to this problem are:

   - o Differentiate funding for instruction, instructional support, operations and maintenance, and student services; establish distinct measures for the allocation of funds to serve the needs in these areas.
   - o Provide a longer period to reduce revenues as ADA decline, such as, using a three-year average for declining ADA.

b. The present mechanism provides only limited ability to increase the levels of service to meet local demands or statewide needs. The adult population change will provide for only a 1.6% increase in ADA in 1985-86. For districts that have declined by 20% or more in two years it will take more than 10 years to restore service levels.

   Districts are not given any lead time for program development. Districts do not receive funds for program development, but must generate ADA in the same year that funds are provided for growth.

   Some potential solutions to these problems are:

   - o Appropriate funds to allow for additional growth and program restoration for districts with greater than average declines in ADA.
   - o Establish funding for program development where ADA would not have to be generated until the subsequent year.

c. The mechanism for calculating ADA has become more cumbersome and less directly related to enrollments, and has contributed to some extent in differing effects among the community college districts. Enrollment is adjusted by two factors in order to calculate ADA. One factor adjusts enrollment by approximately 9%, assuming a constant absence rate. This "absence penalty" is applied to all census classes, regardless of probable differences among the colleges and irrespective of the fact that program expeditures are determined at the onset of the semester and do not fluctuate with absences. The second factor is found in the two-census method. Unlike the four-year segments of public higher education, the community colleges must take census counts twice -- one at the fourth week and the second at the tenth week of a normal semester. Like the absence penalty, this factor adjusts ADA even though the class continues, and expenditures do not decline.

Some potential solutions to this problem are:

- o Eliminate or reduce the "absence penalty" factor.
- o Adjust the census procedure.

d. Problems continue to arise in a dynamic community college system and solutions are dependent upon legislative action, unlike the funding system for the four-year segments (where adjustments can be accommodated among the campuses on a systemwide basis).

A potential solution is to:

- o Grant more discretion over the formulas for community college finance to the Board of Governors.

e. The State funding mechanism has evolved over the years to one that protects the State against the possibility of large increases in State cost and, at the same time, provides significant State savings through declining enrollment and increases in property values and tax proceeds.

The community college system has suffered for a decade with significant decline in buying power and increased needs for categorical aid.

A potential solution is to:

- o Re-establish a State-funded foundation level for determining the State's contributions to the overall system, adjusting it only for inflation, equalization and changing ADA (with a growth cap). Additional resources that would be derived from property taxes would offset funds allocated by the Board of Governors. The Board of Governors could then allocate the additional resources (1) to restore buying power and (2) to improve program quality. Program restoration and improved quality would then be funded by the increases in property taxes that now go to reduce the State's commitment.

Attachment A
Adopted 12/10/82

Board of Governors of the
California Community Colleges

FINANCE PRINCIPLES

1. Stability -

The community college finance mechanism must provide assurances of stability for the continuity of educational opportunity, access, and quality. Educational programs and services should not be subject to sudden and needless jeopardy and students should be assured of the ability to fulfill their objectives.

Funding, as a minimum, must be maintained at a level sufficient to meet changing costs. Funding for each unit of workload (e.g., ADA) must increase in relation to changing cost to maintain quality .

Examples of Potential Statutory Provisions

a. *Prior year revenue used as the base for determining the subsequent year budget.*

b. *Inflation adjustments based on a cost index reflective of true cost change (Implicit Price Deflator for Government Goods and Services).*

c. *Allowance for limited decline in ADA without revenue loss in the event that limited or no inflationary adjustments are provided.*

d. *Use of prior year levels of workload (ADA) for determining funding eligibility.*

e. *Providing a funding band in which no reduction or increase in funding, below or above budgeted levels, would be imposed within the year it occurred (e.g., 2 percent plus or minus provision is applicable to U.C. & CSU).*

2. Growth -

Funding should be provided to enable the community colleges to serve additional students in proportion to growth in the adult population. Additional growth funding should be provided to meet special needs and statewide objectives.

Examples of Potential Statutory Provisions

a. *Allowance for growth based on an index of change in the adult population.*

b. *Provision for special factors of growth that impact the level of need beyond aault population growth and for identified areas of statewide concern. (Such factors may include increases in the refugee population, need for high-tech programs, high levels of unemployment and need for retraining.)*

3 Revenue/Cost Relationships -

The community college finance mechanism should provide levels of funding sufficient for the community colleges to meet the costs of education and services for the programs offered and the students served. Funding, insofar as would be feasible without unduly restricting district flexibility, should be reflective of costs, providing neither fiscal incentives nor disincentives that may influence program decisions.

Decisions to increase or decrease offerings or services should be based on program needs and demands and should not be influenced by levels of incremental funding.

Program increments (e.g., ADA, enrollment, etc.) used to generate specific levels of support funding should equate, as closely as feasible, to the equivalent specific levels of program costs. (Present limitations of programmatic cost data preclude the implementation of a cost differentiated funding system in 1983-84, initially allowing only for differentiated funding on the basis of credit and noncredit and size.)

Examples of Potential Statutory Provisions

a. *Cost differentiation on the basis of credit and noncredit programs.*

b. *Use of an alternative means of determining apportionment levels based on contact hours (i.e., use of weekly student contact hours as opposed to average daily attendance). The principal of stability and the fact that factors and information on cost differences are not known preclude a change away from a measure of funding eligibility based on contact time.*

c. *Staff will conduct a cost study for the development of a cost-based program funding mechanism for subsequent budgets. The mechanism would provide flexibility and the ability to equalize based on cost differences and should identify appropriate levels of incremental funding. Cost differentiation could be used for determination of appropriate revenue levels but it would not be appropriate to restrict district budget and program flexibility by increasing categorically controlled expenditures.*

4. Equity -

Funding levels, including state and local revenues, should be equalized for like programs and services. Revenue differences among the community colleges should be justified on the basis of programmatic differences.

Examples of Potential Statutory Provisions

a. *Provision of an equalization mechanism that would adjust for cost differences (i.e., differences among districts for credit and noncredit programs and for differences in cost due to size).*

b. *Provision of an allowance for decline in ADA for low revenue districts.*

c. *Provision of an incremental funding mechanism for growth and decline that would provide variable amounts of funds depending on each district's relative level of revenue.*

5. Size -

Community colleges must continue to serve on a broad geographic scale in California so that educational opportunity is equitably distributed among the citizens of the state. Where such dispersion necessitates small districts of less than optimum size, the funding mechanism should allow for cost differences.

Examples of Potential Statutory Provisions

a. *Provision of a separate computation for equalizing funding for small districts.*

6. Flexibility -

Community colleges should have the flexibility of redirecting general apportionment funds among programs to meet priority educational needs without adverse fiscal consequences.

Examples of Potential Statutory Provisions

a. *Provision for districts, within total funding levels, to adjust levels of credit and noncredit ADA without fiscal consequences (i.e., determination of district eligibility for revenues would not create a categorical requirement for the district to spend the funds in that pattern).*

7. Timing for State Allocations -

Funding resources should be available on a timely basis to meet community college costs as they occur. State funds should be distributed on a uniform statewide basis in sufficient amounts to meet the generally applicable cash flow needs of the districts.

The Chancellor should, however, have the power to change the monthly allocation to districts when their expenditure patterns and cash flow needs exceed the level of the standard distribution amounts.

Examples of Potential Statutory Provisions

a. *Provision for allocation of state funds consistent with cash flow needs. Consistent with current Budget Act provisions, allowance for district variations in the generally applicable cash flow needs based on expenditure patterns and cash flow needs.*

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